Budget Presentation for Fiscal Year 2006/2007

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MARCH 17, 2006.

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INTRODUCTION

Madame Speaker,

I rise to move the first reading of the General Revenue Appropriation Bill for Fiscal Year 2006/2007.

This budget comes at the end of a difficult year for the country and for this Government. We began this year with a budget that was the focus of intense debate. For the first time in the life of our nation, Government shared information on its proposed fiscal budget with the public even before bringing it to this honourable House. For the first time in independent Belize, our budget deliberations were interrupted by vociferous demonstrations, a testament to the vitality of our democracy. For the first time, Government agreed to make modifications to its spending and revenue plans as a result of negotiations with our social partners.

This current year Government has implemented a very tight budget. We planned, through a series of expenditure reduction and revenue enhancing measures, to reduce the overall fiscal deficit by more than 4% of GDP. This would cause hardship to taxpayers and users of Government services, but Government took the decision to rein in the deficit because we recognized that fundamental imbalances had emerged in our fiscal accounts, and time was not on our side in correcting those imbalances. The alternative would have been to continue to delay the adjustment with potentially disastrous consequences for our economy and our nation.

We have made bold and decisive steps to correct the fiscal deficit. We have made enormous strides in the right direction and, as you will see in the presentation I will lay before you today, we have succeeded in improving our fiscal position.

But there is more to be done. There is more to be done, not only to ensure that we secure the gains we are making in our public finances, but also to ensure that as we move ahead, we chart a course that creates opportunities for all our people – opportunities to build strong and prosperous communities where our people are secure in their families, in their workplaces, in their neighbourhoods and in Belize.

As we remain committed to fiscal and debt sustainability, we must seek to channel resources in those directions that will create the basis for positive and lasting social change.

Development begins, essentially, with the individual, in the family and in the community. Therefore, this budget is designed to provide an environment for people to become more self-reliant, to create fundamental and positive changes in the way we live together and work together.

This is a development budget. It focuses on the needs of the poorer classes of people in our urban and in our rural areas. It provides resources for youth through investment in education and sports so that young people can prepare themselves for the future. It recognizes that solutions to crime and violence lie not only in law enforcement but also in providing opportunities for our young people to empower themselves through education and skills training, and enabling them to be gainfully employed.

Belize is a part of the global economy, and as we participate in the evolving global system, we must develop our human resources to take advantage of the opportunities that present themselves, and to develop strategies to combat the threats to our way of life.

In all this, we must be prepared to change, for it is in a willingness to change that we open ourselves to new opportunities. It is in embracing change that we create new dynamism in ourselves and in the communities we serve.

Madame Speaker,

Before I go on to present details of the policies and programmes which inform the budget proposals for fiscal year 2006/2007, allow me to present some background on developments in the world economy and in the Belizean economy.

BELIZE IN THE WORLD ECONOMY

Major Developed Countries

Global output expanded by 4.3% in 2005, somewhat below the 5.1% growth achieved in 2004. The United States economy grew by an estimated 3.6% in 2005 while higher energy prices pushed inflation up to 4.3%. The US external current account deficit ended the year at over 6.0% of GDP while the fiscal deficit hovered around 3.7% of GDP. In Britain, high oil prices and slower consumer demand contributed to a slowdown in GDP growth from 3.2% in 2004 to around 2.0% in 2005. With exports underperforming, the Japanese economy grew by approximately 2.0% during 2005 with negligible inflation and the fiscal deficit contracted from 7.2% to 6.7% of GDP. Activity in the Euro currency area remained modest, with growth in GDP expected to average 1.4% for 2005. The spike in petroleum prices pushed inflation above the European Central Bank's target rate of 2.0%. The average fiscal deficit is expected to remain around 3.0% of GDP for 2005.

Latin America and the Caribbean

Closer to home, GDP for the Latin American region grew by around 4.6% in 2005. Growth varied across countries with the South American economies expanding faster than Central America and Mexico. Notwithstanding natural disasters in the form of floods and hurricanes, it is estimated that, as a region, Caribbean economies grew by 3.9% in 2005, marginally above the 3.8% achieved in 2004. High international petroleum prices pushed inflation higher in all countries and, with the exception of oil-producer Trinidad and Tobago, also put pressure on the balance of payments.

In Trinidad and Tobago, high petroleum prices and expanded investment in the petroleum and allied industries pushed GDP growth to 7.0% in 2005. The windfall in oil revenues resulted in a large fiscal surplus in FY2005/2006 and added US$1 billion to net international reserves. However, with inflation rising from 4% in 2004 to 5.3% in 2005, monetary policy was tightened to support the exchange rate during the year.

The Bahamian economy expanded by 3.5% in 2005 and inflation rose to 2.2%. In Barbados, economic growth slowed to 4.1% and inflation rose to above 5% from less than 1% in 2004. Jamaica's GDP grew by 1.4% in 2005, notwithstanding two hurricanes and higher international oil prices. Inflation remained high at 16.0%.

Growth in the Organisation of Eastern Caribbean States remained stable in 2005 at around 4.0%. Tourism performance weakened and agriculture production and exports declined significantly due to the very weak performance of the traditional export crops such as bananas, sugar, nutmegs, and cocoa. Inflation has been provisionally estimated at 3.5%.

Belize's Economy in 2005

The Central Statistical Office [CSO] estimates that real growth in GDP decelerated from 4.6% in 2004 to 3.1% in 2005, which, by international standards, is more than commendable. The slowdown reflects the impact of tighter fiscal and monetary policies that were implemented in 2005 to dampen domestic consumption so as to improve the balance of payments.

GDP at current market prices is estimated to have totaled $2.214 billion in 2005. Taking the inflation rate of 3.7% into consideration, this translates into GDP of $2.148 billion in real terms in 2005. This is in keeping with original projections of both the CSO and the International Monetary Fund [IMF]. For calendar year 2006, the CSO estimates that GDP will grow to $2.372 billion in current market prices and $2.201 billion in real terms – a real growth rate of 2.5%. The IMF currently projects real GDP growth at 2.7% in 2006.

Agricultural Production and Exports

In some sectors, domestic production was affected by unfavourable weather during the year. Drought conditions led to a decline of 19.2% in sugarcane deliveries, but also improved the sucrose content of the crop, resulting in a decline in sugar production of only 13.8%. Sugar production consequently amounted to 100,435 long tons while output of molasses declined by 9.8% to 37,074 long tons. Banana production also edged down by 4.2% to 76,101 metric tons in response to poor weather at the start of the crop and a cutback in usage of inputs by some farmers.

In contrast, good harvest weather, highly favourable agronomic conditions, and the continued control of the Mexican Fruit Fly led to a bumper yield for the 2004/2005 citrus crop. Deliveries rose by 21.9% to 7.8 million boxes with deliveries of orange and grapefruit up by 27.6% and 3.3%, respectively. A higher juice yield per box of fruit provided a further boost, and citrus juice output rose by 25.6% to 44.2 million pounds solid, virtually all of which was in the form of concentrates.

Marine export production rose by 8.4% to 19.9 million pounds, reflecting increases of 8.5% in output of shrimp and 77.3% in output of fish fillet. Papaya production rose by 13.5% to 63.1 million pounds. The production of Red Kidney and Black-eye beans almost doubled to 15.9 million pounds.

Earnings from domestic exports rose by 2.5% to $381.5 million during the year. Earnings from citrus juices, papaya and other non-traditional export commodities such as beans, citrus oils and fresh citrus fruit rose significantly. The products that generated lower earnings included sugar, which saw a 12.3% decline in sales revenue to $69.9 million due to the decline in production. In the case of marine products, notwithstanding an increase in shrimp export volume, lower prices for shrimp led to a 21.9% fall in receipts from sales of marine products.

Tourism

Up to the end of November, the performance of the tourism sector was mixed, with visits by stay-over tourists rising by 2.5%, while cruise ship arrivals declined by 6.1%. Stay-over visitors numbered 203,595 with a rise in air arrivals accounting for all of the increase. In contrast, the very active hurricane season resulted in a reduction in the number of port calls and cruise ship disembarkations totaled 631,695 in comparison with 672,971 during the first 11 months of 2004.

Balance of Payments

Even with moderate growth in exports, the trade deficit widened by 35.1% to $471.6 million in 2005 due to a 15.2% increase in imports. While all major import categories expanded, the largest increases were in ‘Fuels and Lubricants, including electricity’, and ‘Machinery and Transport Equipment’. However, the expanded trade deficit was largely offset by higher inflows from services, particularly tourism, as well as remittances and other current transfers. Consequently, the current account deficit of the balance of payments rose by only 1.7% to $303.3 million. This was financed by a surplus on the capital and financial accounts that was mostly comprised of net loan inflows from abroad and $237.3 million in foreign direct investments that included the proceeds from sale of BTL shares, the construction of the Chalillo Dam and several large investments in hotels and eco-lodges in the tourism sector.

Money Supply and Credit

The net foreign assets of the banking system rose by $49.6 million (58.2%), facilitating a 6.6% growth in the broad money supply during the year. The net foreign asset holdings of the Central Bank and commercial banks registered increases of $29.4 million and $20.2 million, each, and at the end of December, the official foreign reserves stood at $135.9 million, equivalent to 1.6 months of imports.

Growth in money supply decelerated due to the measures taken by the Central Bank to restrain the growth of domestic liquidity and credit in defense of the fixed exchange rate. During 2005, the Central Bank removed long-term loans to the Government from the list of approved liquid assets and increased the reserve requirements of the banks by 1.0%. As a result, growth in net domestic credit slowed to 4.2% as compared to growth of 19.8% in 2004. Loans to the private sector and to the statutory bodies were up by $62.7 million and $14.4 million, respectively, while net credit to Central Government declined.

BUDGET PERFORMANCE IN FISCAL YEAR 2005/2006

The Approved Budget and Revised Targets

After posting an Overall Deficit of $177.8 million in FY 2004/2005, the Approved Budget for FY 2005/2006 targeted an Overall Deficit of $66.0 million. This sharp reduction in the deficit was intended to be achieved through a combination of expenditure controls and new revenue measures.

On the revenue side, the Approved Budget provided for increases in rates of business tax, environmental tax, sales tax on luxury items and excise tax. On the expenditure side, the Approved Budget assumed not more than a 3% increase in personal emoluments, no real increases in expenditure on goods and services, and a moderate level of capital expenditure.

After the budget was approved, and in response to public sentiment, significant reconfigurations were made to expenditure and revenue plans. The reconfigurations included a reduction in the Recurrent Revenue target as a result of the partial roll back of approved increases in the environmental tax. The reconfigurations also included an expansion in the Recurrent Expenditure target to provide for the full implementation of the 5% and 8% salary increases to public officers and teachers. In order to keep to the approved Overall Deficit target, compensatory reductions in capital expenditure were also programmed.

During the first quarter of the current fiscal year, Cabinet approved further adjustments to revenue and expenditure plans in order to achieve the fiscal targets. On the revenue side, excise taxes were increased.

To control expenditure, a one-year freeze on increments was implemented, pending the introduction of merit-based increases in the public service to replace the practice of automatic annual increments. Government vehicle fleet was reduced by 20%, and a number of contract officers was terminated. The law was amended to eliminate the practice of pensioners' "double-dipping" that allowed public officers to retire – some even on early retirement – and return to work for Government thereby collecting both pensions and salaries. A number of projects was slowed or delayed in order to reduce Capital expenditures. On the other hand, there was additional provision for debt service payments.

These adjustments resulted in a revised Overall Deficit target of $79.3 million or approximately 3.6% of estimated GDP.

Outturn for the first 10 Months of Fiscal Year 2005/2006

During the first ten months of fiscal year 2005/2006, the tightening of Government's fiscal policy was reflected in a sharp reduction in its Recurrent Deficit to $6.8 million, as compared to $42.4 million for the same period of the last fiscal year. There was also a substantial reduction in the Overall Deficit from $127.6 million for the first 10 months of last fiscal year to $65.1 million for the same period this year.

Recurrent Revenue collections totaled $441.3 million in the first 10 months of fiscal year 2005/2006, an increase of $62.3 million over the same period of the 2004/2005 fiscal year. Recurrent Expenditure rose by $26.7 million with outlays for goods & services and wages & salaries rising by $12.6 million and $9.8 million, respectively. On the other hand, capital expenditure declined by $33.9 million to $75.8 million.

Expected Outturn for the Fiscal Year 2005/2006

On the basis of the actual outturn for the first 10 months and reasonable expectations for the remainder of the year, the Overall Deficit for the current fiscal year is expected to be $89.0 million or 3.9% of GDP.

The Recurrent Deficit is expected to be about $20.1 million by the end of this fiscal year. This is a significant deviation from the position set out in the Approved Budget for this year, which provided for a Recurrent Surplus of $52.6 million. This expected outturn is also short of the revised Recurrent Deficit target of $1.4 million set at the end of the first quarter of fiscal year 2005/2006.

This negative performance on the recurrent account relative to the revised targets primarily reflects the shortfalls in collections of Revenue Replacement Duty [RRD] on imports of fuel. This was the direct result of the Government's decision to absorb a significant portion of the sharp oil price increase experienced in 2005 through reductions in the RRD, rather than pass on the full impact of the oil price increases to the public.

The Customs Department estimates the shortfall in RRD collections to be about $23 million. Although there were some improvements in collections of other duties and taxes on international trade, this single large reduction in RRD collections, which was more than one per cent of GDP, severely affected the revenue performance. The impact of the action by Government to absorb part of the oil price increases is clear - whereas the revised target for Recurrent Revenue collections was $536.7 million, Recurrent Revenue is now expected to total $524.8 million by the end of the fiscal year, or $11.9 million below the revised target.

On the Recurrent Expenditure side, total expenditure is expected to reach $544.9 million, exceeding the revised target of $538.1 million. While expenditures on personal emoluments and debt servicing were slightly below the revised targets, expenditure on pensions and goods and services exceeded the revised target.

Expenditures on goods and services were approved at $115.9 million. The revised target of $124.5 million included additional provisions for public utilities and legal fees. By the end of the fiscal year, expenditure on goods and services is expected to reach $130.7 million, with the additional outlays largely reflecting the impact of increases in fuel prices and electricity costs.

Expenditures on debt servicing [interest payments] are projected to total $148.4 million by the end of the fiscal year. The original provision of $118.3 in the Approved Budget was revised upwards early in the budget year to provide for two major factors. First, Government took into account the need to provide for debt servicing associated with the new Bear Stearns Notes, which were finalized after the budget was approved. Secondly, Government decided to assume direct responsibility for certain external debt service payments by the Development Finance Corporation. In the latter case, and as a compensatory measure, Government also reduced the expected transfers to the DFC of $19 million to less that $2 million.

Total Capital expenditures are expected to be $53.7 million less than the amount allocated in the Approved Budget, in keeping with Government's programme of fiscal stabilization. By the end of the fiscal year, Capital II expenditures are expected to total $55.7 million while Capital III expenditures will total $29 million.

Capital outlays were focused on projects in education, health and poverty elimination, with significant expenditures on building and equipping centers for employment training, providing low income houses, potable water, health clinics, and road infrastructure to the rural areas. Other significant outlays included the Health Sector Reform Project, contributions to the University of Belize (UB) and road infrastructure.

The Primary Surplus [the overall fiscal balance less debt servicing cost] is expected to be about $59.4 million in fiscal year 2005/2006. Although this is less than the revised target for the primary surplus, it is greater than was set out in the Approved Budget for the year and reflects strong underlying improvement in fiscal performance, once external debt servicing is factored out.

The bottom line is that, compared to an overall fiscal deficit of 8% of GDP in fiscal year 2004/2005, the Overall Deficit in fiscal year 2005/2006 has been reduced by more than half to 3.9% of GDP [$89.0 million]. The primary balance is estimated to improve from a deficit of $0.9 million in the last fiscal year to a surplus of $59.4 million in the current fiscal year.

Financing the Deficit

The projected Overall Deficit for the current fiscal year of $89.0 million, taken together with principal debt repayments of $306.7 million and payments for purchase of equity of $29.8 million, altogether resulted in a financing requirement of $425.5 million. This requirement was largely met from three main sources. The banking system provided $238.6 million, including the funds received from the placement of the Bear Stearns notes before the beginning of the fiscal year. Proceeds from privatization amounted to $102 million. Drawdowns on external loans totaled $85 million.

The Public Debt

At the end of December 2004, total debt amounted to $2.05 billion. At the end of December 2005 the total stock of outstanding debt, including public sector debt and publicly guaranteed debt of the private sector, stood at $2.1 billion. The external debt totaled $1.9 billion and the domestic debt $0.2 billion.

Of the total external public debt, the direct obligations of the Central Government accounted for US$869 million while some US$131 million were held by other public sector entities and by the private sector with government contingent guarantees.

During the twelve-month period January to December 2005, the Central Government repaid some US$142.5 million to external creditors while drawing some US$201.1 million in new debt, resulting in a net increase of some US$38.6 million in the stock of outstanding debt. Over the period, the Central Government also paid some US$64.4 million in interest charges on the external debt. Domestic debt servicing accounted for a further BZ$23.6 million.

Estimates for the Central Government for the upcoming fiscal year include BZ$ 123.0 million in amortization payments and BZ$145.6 million in interest payments. As in previous years, it is expected that the rest of the public sector will meet its own debt service commitments, and that the proceeds from the sale of collateral should fully offset any further payment in respect of the contingent liabilities of the Belize Social Security Board and the DFC.

Towards the end of last year, Government embarked on a process of designing a comprehensive debt strategy for effectively managing its public debt portfolio and for reducing the vulnerability of the portfolio to refinancing risks. This process partners the ongoing process to strengthen fiscal performance.

In November 2005, Government hired the financial advisory services of the investment bank Houlihan Lokey Howard & Zukin to analyse its public debt portfolio and to advise the Government in the formulation of a debt management strategy. A report from the Advisors is due shortly and their findings and recommendations will be carefully considered and an appropriate strategy will be adopted in consultation with our international lenders and development partners.

The Development Finance Corporation

Throughout 2005, the orderly winding down of the Development Finance Corporation continued. The balance sheet of the Corporation shrunk by 47% from $625 million to $328 million through a process of setting-off debts between the Government and the DFC, as well as through the revaluation of physical assets and the sale of assets. At the same time, operating expenses were reduced by one-half from 4 % to 2 % of its current loan portfolio while new cash lending has been halted.

The emphasis now is on improving loan portfolio performance through intensified collection efforts, including stepped-up foreclosure proceedings on delinquent loans. In this process, some 1,500 small, uncollectible, under-collateralized agriculture and hurricane rehabilitation loans amounting to $5.8 million were written off. This was done only after all collection efforts were exhausted.

With the number of small loans substantially reduced and with new lending operations halted, the staff of DFC is focused on pursuing collections on the larger problem loans.

Over the year, the DFC remained engaged with its multilateral partners, particularly the Caribbean Development Bank [CDB] and the Inter-American Development Bank [IDB], in order to build a consensus on the way forward. Government recognizes that a suitable mechanism must be in place to provide financing for development and will continue to work with the staff of the DFC and with the international development banks to define the new mechanism in the new fiscal year.

The work of the Commission of Inquiry appointed to look into the affairs of the DFC continues and the management and staff of the Corporation have been cooperating fully with the Commission, providing the information required by the Commission in the execution of its responsibilities. Government remains committed to hiring a Forensic Auditor to undertake a Forensic Accounting Investigation of the DFC and, at the request of the Unions, continues to await the submission by the Unions of a proposed revision to the February 11, 2005 Agreement.

Belize Water Services Limited

The Government in October, 2005, repurchased majority shareholding (82.68% of issued shares) in Belize Water Services Limited from CASCAL B.V. at a price of US$24.8 million. Of this purchase price, U$$14.9 million was paid in cash while the balance of US$9.9 million is to be paid over the next four years with interest at 10% per annum. As security for the payment of this balance, Government pledged 13,229,020 shares in BWSL representing the shares not yet paid for by Government.

Immediately after the purchase of the shares, Government assumed control of BWSL and has retained all local management and staff.

In late November, 2005 Government offered all the repurchased shares (including the pledged shares) in BWSL for sale to the general public. The offering closed at the end of February, 2006. Strong interest has been expressed by the employees of BWSL in purchasing majority ownership in the company and the Belize Social Security Board has recently approved a loan to the employees to finance their proposed purchase of the majority shares.

Rationalization of Public Transportation

Government is also seeking long-term solutions to the disorder in the public road transportation system. When the receivership management of the Novelo Bus Company terminated operations last year, the Department of Transport stepped in and implemented temporary arrangements to schedule bus runs, while stepping up the monitoring of the bus system for compliance with public safety requirements. While this intervention has brought some improvement in the provision of bus services, this is just a temporary arrangement.

We are also laying on the table in the House today, a resolution seeking approval for Government to purchase the Novelo Bus Terminals country-wide. These terminals are being reopened to the public under the temporary management of the Department of Transport. Early in the new fiscal year, Government will bring to the National Assembly, proposals to establish a National Transportation Authority to regulate and supervise the road transportation system, including the sale of bus routes, and the management and operation of bus terminals countrywide.

It is not the intention of this Government to allow any one entity to monopolize the bus transportation system. Neither is it the intention of this Government to unilaterally deprive any municipality of the revenue that it is earning from licences and fines. What is needed, is for the agencies involved in regulating and monitoring public transportation to sit around the same table and agree on the common objective: a transportation system that is safe, dependable and affordable everywhere in this nation.

BACKGROUND TO THE BUDGET PROPOSALS

FOR FISCAL YEAR 2006/2007

As I said at the beginning of this presentation, fiscal year 2005/2006 has been a difficult one. But it was also a year in which my government took tough decisions to right the ship of State by engaging civil society as never before in a continuous dialogue aimed at improving good governance and increasing the participation of people in the decision-making process; and by taking the steps necessary to put our financial house in order and strengthen the institutions designed to ensure transparency and accountability.

When the People's United Party Government came into office in 1998, we embarked on a policy driven by the need to grow the economy. This was the mandate of the people who had voted out the UDP Government because of its contractionary policies, which had stifled economic growth leading to stagnation, massive unemployment and hopelessness.

The PUP Government set out to stimulate the economy by investing significant public funds in major infrastructure projects and housing financed by loans and privatization proceeds. At the same time we sought to promote private sector development through enhanced development incentives and creation of Export Processing Zones and Commercial Free Zones as mechanisms for job creation. As a result, there was and continues to be healthy growth in the Belizean economy.

Unfortunately, several things, some external and others originating internally, occurred which caused these policies to produce unintended and undesirable consequences.

Among the external factors which adversely impacted on our economy were the several major hurricanes which affected Belize, the systematic erosion of preferential markets, the weakening prices for our traditional agricultural products and the rise in petroleum prices to unprecedented levels. These factors interrupted domestic production, weakened export performance, and put pressure on our balance of payments.

The internally generated factors arose from Government's initiatives to expand the economy by assisting in arranging financing for businesses and by privatizing several entities. On their part, certain private sector counterparts failed miserably, running up heavy debts and mismanaging their enterprises, raising the question of corruption and good governance.

As private sector counterparts did not or could not repay their loans, Government went deeper into debt and over time it became increasingly difficult to meet debt payments while at the same time finance the projects necessary to improve the social and economic well-being of our citizens.

Although a lot has been done, and the infrastructure is there to prove it, public finances became more difficult to sustain. Government was forced to curtail operating expenses and reduce expenditure on projects that would otherwise benefit the majority of citizens. Today, eight years later, we need to rethink the policies which we must pursue to ensure a better future for Belize.

The global economic system has changed considerably. At the same time that Belize is losing its traditional markets, our per capita GDP has grown so high as to preclude access to concessionary financing. We are part of that globalized world that has to, and is expected to, fend for itself, notwithstanding the uncertainties created by the uneven impact of the World Trade Organisation, which is more concerned with making international trade free than with making it fair. We have to depend on our own resources and on our ability to access the international financial markets at affordable rates.

The policies that might have worked in 1998, will not work in 2006. New policies are needed and we have already done considerable work, during the last year and a half, to set the stage for a change in policy.

Implementing Policy Change – Laying the ground work

Improving Financial Management and Accountability

In the area of financial management and transparency of Government's financial affairs, we have passed into law the Finance and Audit [Reform] Act [2005], which set new standards of financial accountability. But there is more work to be done to ensure that both the spirit and the letter of the legislation are observed, including the proper functioning of the Public Accounts Committee of this honourable House.

To facilitate this process, the Accountant General's Department has done a tremendous amount of work to bring Government's financial accounts up to date. Whereas these financial accounts were delayed for many years, during this fiscal year, the Accountant General completed statements for fiscal years 2002/2003, 2003/2004 and 2004/2005, and these were submitted, in December 2005, to the Auditor General's Office for audit examination.

The Accountant General is also developing a process of preparing monthly statements of accounts which will allow annual financial accounts to be routinely completed well within the time required by the Finance and Audit [Reform] Act, beginning with the financial accounts for fiscal year 2005/2006.

This means that for the first time in more than a decade, the Accountant General will be in a position to comply with the financial reporting requirements of the law.

We have also been streamlining the budget format to better conform to international standards. The draft estimates of revenue and expenditure 2006/2007 demonstrate that substantial work has been done to review and revise the budget format and the statistics that emanate from the fiscal accounts. Allied to this, is the practice begun in this fiscal year to publish summary reports on fiscal performance on a monthly basis. This regular reporting is not only a part of the accountability process, but also a key mechanism to provide data to the local and international community for decision-making.

A key undertaking of this process of strengthening transparency is the ongoing work to transform the Central Statistics Office [CSO] into an autonomous and top quality statistical institute. In January 2004, the CSO was removed from under the direction of the Ministry of Finance as a first step in the direction of removing any perception of ministerial direction of the statistics produced. We also, shortly after doing this, confirmed to the international community that Belize wished to ascribe to the General Data Dissemination System, which sets international standards for preparation and publication of economic information. The Central Statistics Office has responsibility for this process and I am informed that much progress has been made in this undertaking.

Early in the new fiscal year, we will move further towards autonomy by bringing to the National Assembly a bill to establish the Central Statistics Office as an independent institution. In preparation for this, the staff of the Statistics Office has led the way in learning how this has been accomplished in other countries, including those in the Caribbean region, that have established independent Statistics Institutes. This process has been helped by several international agencies that have provided resources for the preparation of a strategic plan for the transition to a statutory body. At the end of the process, the objective is to have an independent, professional, top quality agency to be responsible for preparation and dissemination of information on all aspects of our social and economic life.

Strengthening of Oversight Institutions

This year, we have also intensified the process of strengthening the Office of the Auditor General. That Office has almost completed its move to Belmopan. Its staff has benefited from a first round of training in Value for Money Auditing and proposals are on the table to upgrade the staffing positions of that Office to promote greater qualifications and retention of staff. These matters are the focus of consultations between the Office of the Auditor General and the Ministry of Finance with a view to ensuring that resources are available to continue the work of strengthening this key oversight office in the upcoming fiscal year.

Work has also been underway to facilitate the work of the Integrity Commission by preparing office accommodations and providing full time staff, so that the operations of that Office can take on the permanence that is required. This work will also continue in the upcoming fiscal year.

Consulting with People to Define a Poverty Elimination Strategy

Even as our economy grew by unprecedented rates since 1998, the evidence indicates that this growth has not translated into a reduction in poverty levels in our vulnerable communities. There is no interpretation that can be put to this reality, other than there is growing inequality in our country. This is not a trend with which we can ever be comfortable.

We accept that economic growth is a precondition for poverty reduction, but do not believe in the orthodoxy that economic growth translates naturally into poverty reduction. Left to itself, economic growth will not be equitably enjoyed, and to the extent that growth is skewed to one sector of the economy or society, it may actually be accompanied by increasing poverty. We firmly believe, therefore, that there is need for well-planned interventions to ensure that poverty is attacked at its roots.

During this current fiscal year, technical officials of various Ministries spent much time consulting with the communities in the poorest parts of our country to listen to their needs. Following these consultations, Cabinet, for the first time, met in the Toledo District to focus on the needs of that district as articulated by the communities, and approved a plan of action to address these needs. This plan of action has been mainstreamed into the budget allocations of various ministries, to cover such priority needs as renovations to health centers and school buildings, implementation of rudimentary water systems and rural electrification. In addition, funds have been identified to undertake the first phase of surveys and land titling in those communities where individuals want individual titles to their land rather than maintaining communal land.

This is the way of developing and implementing policies that this Government will follow. Our policies have to be informed by the knowledge, the needs and the aspirations of the people. We intend to continue to consult and to seek to strengthen the mechanisms for consultation.

In the case of Southside Belize City, a broad-based oversight committee has been established, including the Area Representatives of both political parties, the Belize City Council, community leaders as well as the Ministry of National Development and the Ministry of Works and Transport. This committee has worked to ensure that the Southside Improvement Project - which has already begun to be implemented but will be accelerated in the upcoming fiscal year – meets the expectations of the beneficiaries of the project. We expect that during its implementation, the oversight committee will continue to work to ensure that the project keeps on track.

This is a huge undertaking with an initial planned expenditure of $47 million over 4 years. The first major financing agreement that underpins this project is also being tabled in the House of Representatives today for approval.

Promoting Enterprise Development

An effective and lasting way to eliminate poverty is to create conditions for enterprises to develop, thereby creating livelihoods for the owners of enterprises and the people they employ. It is widely accepted that micro, small and medium enterprises create more jobs per dollar of investment. More than that, our consultations have revealed that many people in poorer communities have good business ideas or are already operating micro businesses but require small amounts of financing or some strategic advice to allow their businesses to grow and to provide them with comfortable standards of living.

Government, therefore, has made the promotion of micro, small and medium enterprises a key element of the fight against poverty. Three important initiatives that will support such enterprises will come on stream in the next fiscal year.

First, Government will begin to implement the European Union funded Rural Development Project that will have as a major objective, the promotion of enterprises in the rural areas of all the districts of Belize. This multi-year project will also provide agricultural support services, community development initiatives and basic economic infrastructure such as farm roads and bridges.

Secondly, BELTRAIDE will shift its emphasis towards development of local enterprise and focus on the implementation of an export policy that is intended to assist Belizean producers to access international and regional markets. This effort will target small and medium enterprises.

Thirdly, the Belize Tourism Board is leading the way towards developing Community Tourism as a mechanism for ensuring that the benefits of the expanding tourism industry are shared more equitably.

Tourism is the leading economic sector of Belize with great potential for all Belizeans to benefit. We are strongly supporting the work of the BTB and other tourism stakeholders to make Tourism a national priority.

As a central part of its Master Plan for the development of tourism on a sustainable basis, the BTB will place major emphasis on promoting small and medium tourism enterprises and the transformation of whole communities into tourism destinations, thereby ensuring that local communities are not relegated to menial jobs but become real stakeholders and full partners in the industry.

We intend to bring several other important new initiatives to the National Assembly during the upcoming fiscal year.

Protecting our Cultural Heritage

The first of these initiatives reflects the commitment of this Government to cultural preservation. Early in the new fiscal year, Government will bring to the National Assembly, legislation to establish a Trust Fund for Cultural Preservation. This Trust Fund will create a mechanism to protect and preserve our cultural heritage in much the same way that the Protected Areas Conservation Trust [PACT] works to protect our natural environment. The central idea is to require that the National Institute of Culture and History, pay into the trust fund a fixed percentage of the entry fee collected from visitors to Belize's heritage sites. Individuals, community groups and institutions would be able to apply to this trust for funding projects intended to preserve aspects of Belizean culture and heritage.

Developing the Housing Sector

The second initiative that we will bring to the National Assembly next fiscal year, is the establishment of a National Housing Corporation to merge the various existing public sector housing initiatives into one agency with public and private sector participation. This initiative would see the Government limit its intervention to regulation, by the Ministry of Housing, of the housing sector, including the establishment and monitoring of building standards, and urban planning. The new entity would be endowed with Government's existing housing stock at current market values, and possibly the remaining performing loan portfolio from the Development Finance Corporation. Other public sector agencies and the private sector would be invited to participate in this new entity. It is envisaged that this new entity, managed by an independent board, would breathe new life and coherence into the housing sector, particularly low and middle income housing.

Promoting the Use and Development of Renewable Energy

In 2005, Belize, along with the rest of the oil-importing world, suffered the consequences of an unprecedented rise in the price of petroleum products. In 1998, the price of oil was less than US$15 a barrel and exceeded US$70 at its peak in 2005. This had a major impact on the economy of Belize. High fuel prices increased production costs in the private sector, pushed the inflation rate higher, increased the costs of Government operations and eroded tax revenues.

We will bring to the National Assembly in the upcoming fiscal year, proposals to promote the increase in the use of renewable energy, including wind and solar energy, as a way of reducing the dependence on imported petroleum products while at the same time protecting the environment.

Government has already supported the plans of the Belize Sugar Industries Ltd. to develop a cogeneration plant to use the bagasse by-product of the sugar industry to generate electricity for the national grid. This project also increases the earnings from cane production thereby improving the future prospect of the sugar industry in the face of the dismantling of the preferential market for sugar.

Government has been implementing a solar energy project for the provision of electricity to the residents of San Benito Poite. This project is completed and in the coming year, we will be implementing a similar project in Dolores – also in the Toledo District. Through these projects, villages that are too distant from the electricity grid to make connection affordable, have the prospect of using electricity from the sun to provide light and power for basic appliances.

A mini hydro-electric supply system in the south of the country is shortly to come on stream adding another supply of alternative energy to the national grid and thereby helping to reduce the dependence on imported oil.

There is hope that the emerging oil industry in Belize will reduce our dependence on oil imports, save foreign exchange and contribute to Government revenue. The company is still in the production testing phase during which several things have to be determined. The quality of the oil has to be confirmed in order that the international oil market can recognize it and price it as “Belize” crude; the size and rate of extraction of oil reserves need to be established through scientific testing.

So far, the crude oil that has been extracted and sold has been from the production testing phase. Once the quality of the oil, the size of reserves and the rate of extraction have been established, we will be in a better position to assess the contribution of the oil industry to Belize’s economy. We should have answers to these questions and be in a position to begin to quantify the economic impact of the oil industry early in the coming fiscal year.

We have, therefore, not included in the draft Budget, any assumptions of revenue inflows from this industry. Similarly, the Central Bank has not included any assumptions of foreign exchange inflows into its estimates of balance of payments. We will revisit our projections when complete information on the potential of the oil industry is available. We think it is wiser not to count our chickens before they are hatched.

In the meantime, we are strengthening the Geology and Petroleum Office, by appointing new and trained staff and by acquiring oil industry expertise, to review the legal framework for the industry.

What this Budget is signaling, in short, is a shift away from the policy of facilitating large private investments in the hope that these would provide jobs and improve the lives of a majority of our people, to a policy of investing directly in people through improved education and health, promotion of small and community enterprises, and consulting with people to define strategies that will reduce inequality and poverty. At the same time, we are moving to restructure State institutions to make them more responsive to the needs and aspirations of the majorities and addressing the major challenges posed by the high cost of energy, the worsening terms of trade and the negative economic and cultural effects of globalization. It is with these goals in mind that we prepared the budget proposals for fiscal year 2006/2007.

Budget Proposal for Fiscal Year 2006/2007

Achieving and maintaining an Overall Deficit target below 3% of GDP remains the over-arching objective of financial management of the budget.

The budget proposals for the coming fiscal year continue to emphasize health, education and poverty alleviation. Therefore, the portfolios and projects which address these concerns will continue to receive the greater share of proposed allocations in the next fiscal year.

Government will continue to exercise control over the expansion of staff complement. The staff containment policy continues to be in place and, as in the budget presented last year, this budget limits the creation of new positions only to indispensable positions in priority areas.

The budget is predicated on the basis that GDP will grow in real terms by between 2.5% – 2.8% in calendar year 2006. The Central Statistics Office [CSO] has confirmed that it estimates GDP to have totaled $2.214 billion in current year prices in calendar year 2005. For the purposes of the budget, the CSO has prepared projections of GDP in fiscal years 2005/2006 and 2006/2007 to facilitate estimates of the fiscal deficit to GDP ratio. The CSO has estimated GDP at market prices for fiscal year 2005/2006 at $2.254 billion and for fiscal year 2006/2007 at $2.414 billion. This translates into growth in GDP at current market prices of 7.2%. These are the numbers which are used in the calculation of the fiscal deficit as a proportion of GDP.

The budget presumes that economic growth, as indicated by expansion in GDP in current market prices, would naturally produce around 7% growth in revenue collections. In addition, there should be some improvements in revenue administration which would add to total revenue collections. The repeal of the Sales Tax with effect from July 1, 2006 and the introduction of the General Sales Tax from that date is conservatively estimated to be revenue neutral. There is no new revenue measure in the 2006-2007 budget.

Emphasis will continue to be placed on expenditure control in order to reduce the Overall Deficit to the targeted level.

These budget proposals also seek to make further improvements in the classification of financial transactions. In the budget for the fiscal year 2005/2006, the Capital III account was thoroughly reviewed and projects and activities which were not capital investment projects financed from foreign resources were re-classified as either Capital II or Recurrent Expenditure in keeping with the international standards of classification as set out in the Government Finance Statistics [GFS] manual. In the budget proposals for the upcoming year, the Capital II account has been reviewed and activities that are wholly recurrent in nature have been shifted into the Recurrent Expenditure budget. While this may make it more difficult to compare the performance of the recurrent and capital budgets during the upcoming budget year with previous years, it will have no effect on either the primary balance or the overall balance.

The Overall Budget

The draft Estimates of Revenue and Expenditure for fiscal year 2006/2007 propose total revenue and grants of $598.6 million. This includes Recurrent Revenue of $562.9 million, capital revenue and debt service receipts of $27.2 million and grants of $8.5 million.

The draft estimates propose total expenditure of $667.9 million. This includes Recurrent Expenditure proposals totaling $561.9 million, Capital II proposals totaling $54.2 million and Capital III proposals totaling $48.9 million. Capital transfers and net lending is proposed to be $3.2 million.

The levels of proposed revenue and expenditure result in an Overall Deficit of $69.3 million – equivalent to about 2.9% of GDP. Given the success of the effort to reduce the Overall Deficit in fiscal year 2005/2006 and continuing commitment to achieve medium term fiscal sustainability, the effort to bring the Overall Deficit to below 3% of GDP is expected to be successful in the upcoming fiscal year. Indeed, it is absolutely important that this target be achieved in the upcoming fiscal year.

The projected Overall Deficit for the next fiscal year of $69.6 million and the amortization payments of a further $123.0 million is expected to be financed as follows: $32.1 million in project related loan financing; $70.0 million in general external financing; $30.0 million from privatization proceeds, and $60.0 million in domestic financing. To the extent that additional external funds become available during the course of the fiscal year, the need for domestic financing will be reduced correspondingly.

Estimates of Revenue 2006/2007

Estimates of Recurrent Revenue collections for the next fiscal year are proposed at $562.9 million. Of this, $513.9 million is expected to arise from tax revenue while the remaining $49.0 million is expected to arise from non-tax revenue.

Taxes on international trade and transactions are expected to total $176.5 million in 2005/2006 and are proposed to total $170.4 million in 2006/2007. Lest there be any confusion, the reason for this reduction is a reclassification of Excise Duties from “Taxes on International Trade and Transactions” to “Taxes on Goods, Transaction and Services" to reflect the fact that Excise Duties are not charged on imports or exports. As can be seen in the details of the revenue estimates, if Excise Duties were included in the category of taxes as previously classified, the expected growth in "Taxes on International Trade and Transactions" would be about 10% in the upcoming fiscal year.

Taxes on "Goods Transactions and Services" are proposed to grow from an expected $162.3 million in fiscal year 2005/2006 to an estimated $202.3 million in the upcoming fiscal year. This includes collections of Sales Tax for the first 3 months of the fiscal year and General Sales Tax for the remaining 9 months. However, it also includes the provision for collections of $23.9 million in Excise Duties which were previously not classified in this category of taxes. If Excise Duties were excluded from this category of taxes as previously done, this category of taxes in fiscal year 2006/2007 would be expected to grow by less than 10% above the actual collections in fiscal year 2005/2006.

Estimates of Recurrent Expenditure

The summary breakdown of Recurrent Expenditure proposals indicates that as in previous years, the largest category of proposed Recurrent Expenditure is Personal Emoluments, accounting for 39.7%. These provisions include an allocation for increments for Public Officers on the expectation that these will be reactivated under a meritocracy system on July 1, 2006. Goods and services account for 27.6%, debt servicing accounts for 25.8%, and Pensions account for the remaining 7%. It should be noted that a significant part of the expansion in provision for Goods and Services represents the impact of reclassifying activities from Capital II to Recurrent Expenditure. Even with this reclassification, which resulted in a transfer of more than $5 million from Capital II to the recurrent budget, it is expected that the Recurrent Deficit of $20.4 million expected by the end of the current fiscal year will improve to a surplus of $1.3 million in the upcoming fiscal year. This reflects the projection that while Recurrent Revenues will grow by about 7.2%, Recurrent Expenditure will grow by only 3.2%.

As a general comment, the Ministry of Finance accounts for the largest allocation of Recurrent Expenditure. This largely reflects the Ministry's responsibility to provide for public debt payments and for pensions/gratuities for all persons retired and retiring from the public service. The Ministry of Education accounts for more than 20% of recurrent budget and the Ministry of Health accounts for almost 10% of the recurrent budget.

Estimates of Capital Expenditure

These expenditure proposals provide for a modest increase in capital expenditure in the upcoming fiscal year. The proposed Capital II budget includes $54.2 million in Capital II [locally funded] expenditure including counterpart financing for all Capital III projects that require such financing.

The largest portion - $13.2 million or 25.7% of the total - of Capital II expenditure is proposed for the Ministry of Education. This includes provision of $7.5 million for the University of Belize, $2.3 million for tertiary level scholarships, $2.0 million in counterpart contribution for the CDB-funded Technical and Vocational Education and Training [TVET] Project as well as a number of smaller provisions for investment in Early Childhood Education, libraries and new classrooms.

The second largest portion is proposed for the Ministry of Works and Transport including provision for significant rehabilitation of the major highways, feeder roads, streets and drains and counterpart contribution for infrastructure component of the Southside Improvement Project. Funds are also allocated to commence the work on the road from Blue Creek to Orange Walk Town.

An allocation of $6.8 million or 13.3% of the Capital II budget is proposed for the Ministry of National Development to cover counterpart contribution for the Social Investment Fund and Basic Needs Trust Fund [BNTF] projects, rural electrification, rural water supply, BELTRAIDE, the Toledo Development Corporation and the National Institute of Culture and History.

The proposed Capital III budget for fiscal year 2006/2007 totals $48.9 million in projects financed from loan or grant resources from bilateral or multilateral sources.

The largest provision of Capital III resources [$18.1 million or 37.9%] is proposed for allocation to the Ministry of National Development. This includes the SIF, BNTF and CDI funded projects in the areas of rural and community development, rudimentary water systems, education and skills training and rural infrastructure, all areas that are crucial in the fight against poverty and inequality. It also includes the Caye Caulker and the Belize River Valley water systems.

The proposed provision for the Ministry of Works includes infrastructure for the Southside Improvement Project and the Placencia Road under agreements with OPEC Fund, the Silver Creek Bridge under agreement with the EU, and the Southern Highway under agreement with the Kuwaiti Fund.

It is proposed to allocate $6.5 million to the Ministry of Health for the CDB/IDB-funded Health Sector Reform Project. In addition, financing from the Global Fund for HIV/AIDS, Tuberculosis and Malaria has begun to be received and will complement Government's ongoing effort to provide free anti-retroviral medication.

The Ministry of Education is to be allocated $5.1 million for the CDB-funded TVET Project that is building Centers for Employment Training across the country. The EU-funded Rural Development Project is to begin in the upcoming fiscal year and $4.0 million is to be allocated to the Ministry of Agriculture and Fisheries under this project. The Ministry of Natural Resources' IDB-funded Land Management Programme is to be allocated $2.5 million. The Ministry of Sports is expected to begin improvement works at the Marion Jones Stadium during this coming year. A sum of $2.0 million is to be provided for this purpose.

In addition to these projects for which funding has already been identified, Government is proposing to seek funding for 2 additional priority projects to be implemented by the Ministry of Housing: $1.0 million for a project to provide funds for home improvement to lower income persons and $0.5 million for a sporting facility in Dangriga.

These projects will be further discussed by the relevant Ministers in their contributions to the Budget Debate.

CONCLUSION

This budget is not just about revenue and expenditure. It is about making hard choices, defining priorities, charting a new way forward.

The Revenue and Expenditure plans which I have set out for the consideration of the members of this Honourable House at some great detail reflect a decisive change in the policies of this Government from grandiose projects to programmes that directly benefit the majority of people with a renewed commitment to policies that combine economic efficiency with social justice and greater equity.

The budget proposals provide greater opportunities for Belizeans to acquire the skills and education they need to make the most of their lives. Quality, affordable health care, spreading the benefits of land ownership and better housing conditions, while stimulating job creation and self-employment through micro-enterprises, are central to improving the quality of life, safety and security for all.

I am convinced that with this budget we are taking the first step toward creating a new social, economic and moral environment that will provide our future generations with the opportunity to live more decent and productive lives.

The great theologian Bonhoeffer was right. “The ultimate test of a moral society is the kind of world it leaves for its children.” When we look into the eyes of our children we see that we don’t have a moment to waste.

In devising the policies and programmes to achieve the goals outlined in this budget, we recognize that we must work in partnership with all the people, at all levels of society throughout all of Belize.

Underlying all this is the importance of controlling the fiscal deficit. We are making strong progress and we are committed to continue to do so. Tight fiscal discipline will remain in place and, as we have clearly demonstrated this year, it can be done.

With faith in our God and confidence in ourselves as a people, let us continue to build a more just, equitable and compassionate society that gives all Belizeans the chance to make the best of their boundless potential.